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TAGS: ECON EINV ETRD EIND PGOV VE

SUBJECT: VENEZUELAN CEMENT NATIONALIZATIONS DESIGNED TO
BOOST ELECTION RESULTS

REF: A. CARACAS 624
1B. CARACAS 1170

Classified By: Economic Counselor Darnall Steuart for reasons 1.4
(b) and (d).

11. (C) SUMMARY: A senior executive from the Swiss cement company Holcim, nationalized by the Bolivarian Republic of Venezuela (BRV) as of August 18, suggested that the BRV had rushed to nationalize the cement sector after months of relative inactivity out of a desire to claim ownership of a key housing construction component prior to the November elections. He described erratic BRV behavior during the nationalization negotiations and in the first week following nationalization. The executive said that although Holcim is unhappy with its USD 552 million settlement price, it feels the decision to settle was the right one in light of Cemex' current troubles. The BRV appears to be anxious to maintain current levels of cement production through November. END SUMMARY.

BRV WANTS BUSINESS AS USUAL UNTIL AFTER ELECTIONS

12. (U) As reported in the press, on August 18 the French cement company Lafarge agreed to a sale price of USD 267 million and an 11 percent share in the resulting joint venture company, while Swiss cement company Holcim agreed to sell to the BRV for USD 552 million and a 15 percent stake in the company. Upon failing to reach an agreement with Mexican company Cemex, the BRV took control of Cemex plants, in some cases using national guard troops. The BRV announced on August 22 that it would allow Cemex to resume negotiations on August 25. Press reports indicate Cemex stopped pursuing a case with the World Bank's International Center for the Settlement of Investment Disputes (ICSID) following the BRV's decision to resume negotiations. The BRV also announced that it will centralize all cement company operations under a Vice President-controlled umbrella organization to be called the "National Cement Company."

13. (C) On August 21, Econoffs met with Holcim Executive Director for Venezuela Louis Beauchemin (strictly protect throughout) who underlined that the BRV had rushed ahead with the nationalization of the cement companies in order to point to its control of construction inputs in advance of the November state and local elections. On August 19, a newly appointed transition team appeared in Holcim's offices. Through his initial meetings with this team Beauchemin believes that, in spite of the BRV's rush to claim ownership of the cement companies, it wants business as usual at the cement plants until after the November elections. For now, Beauchemin suspects the BRV will only tinker with pricing. Ultimately he suspects the BRV may reduce the regulated price of cement, which has been unchanged since 2003 in spite of high levels of inflation, so it can claim it is promoting low-cost housing construction. The housing shortage is an election issue among low income voters, Chavez' largest constituency. (Housing covered in septel.)

14. (C) Beauchemin believes the BRV will not mak major changes to management or operations in th short-term and the transition team has told himthey want all Holcim staff to stay through Decembr. Lead PDVSA negotiator Eulogio Del Pino admited to Beauchemin that PDVSA would have no one to send if Holcim staff leave as PDVSA has no expertise in cement and cannot fill 150 of its own vacant engineer positions. Beauchemin expects to stay on until December when Holcim is scheduled to collect its USD 552 million from PDVSA.

15. (C) The transition team made it clear they need Holcim producing at full capacity or the team would lose their jobs.

The team has also been very open about the fact that they cannot afford another Cemento Andino (ref A). The BRV nationalized Cemento Andino in 2007 and has yet to compensate the former, Colombian owners. Production has fallen dramatically since Cemento Andino's nationalization and Beauchemin reported the BRV has "no control" over plant operations. He believes the plant is currently run by a "mafia masquerading as a union", that controls every aspect of failing plant operations.

NATIONALIZATION PROCESS A COMEDY OF ERRORS

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¶6. (C) Beauchemin also provided insight into how the BRV handles the nationalization process. From when the nationalization was first announced in mid-April to August 17, PDVSA met with Holcim approximately 10 times in meetings of no more than 20 minutes each. Six of those meetings took place the week of August 11. Beauchemin added that if he tried to describe BRV behavior during the nationalization process no one would believe him.

¶7. (C) He used the transition team's unannounced arrival on August 19 as an example. When no one from Holcim was there to meet with the team, they left and returned the following day. The team gave Beauchemin the first official document he had received from the BRV throughout the entire process, which listed the names of the four transition team members. He reported that almost all communications up to that point had been verbal (ref A). Shortly after the team's arrival, the team leader received a phone call telling her there had been a mistake and she had just been assigned to head the new Cemex Board of Directors. She quickly departed Holcim en route to Cemex taking the lone official document with her for correction.

¶8. (C) Beauchemin then discovered that the only member of the second transition team with any knowledge of the cement industry is actually a low-level manager currently employed by Holcim's competitor Lafarge. Lafarge confirmed the employee is currently on vacation. Beauchemin's requests to have the Lafarge employee removed from the Holcim team have gone unanswered. So far, the transition team has only asked to see Holcim's union contracts and met with union leaders after reportedly checking to ensure they were not included in the Tascon list. Note: The Tascon list gives the names of those who signed the 2004 presidential recall referendum. Some of Holcim's top Venezuelan managers are on the list. End Note.)

HOLCIM DISCUSSES CEMEX

9.(C) While Beauchemin was reluctant to discuss his competitor's troubles he did point out that although Holcim is not happy with its sale price either their New York team of international arbitration experts advised them it was far better to sell than risk the type of forced acquisition Cemex is experiencing (ref B). After 30 years of investing in Venezuela, Holcim decided to keep its foot in the door with a 15 percent ownership stake. Beauchemin noted that Holcim has seen many Venezuelan administrations come and go and is willing to sit this one out. He suggested that Cemex' business strategy is more focused on the short-term.

¶10. (C) Beauchemin underscored that Holcim is a Swiss company with some of the best technology on the market. Former Cemex employees have told him that Cemex plants are dirty and outdated when compared to the Swiss plants. Beauchemin questioned whether or not Cemex is truly worth more than double the value of Holcim's operations in Venezuela, although he noted the proposed USD 1.3 billion price tag for Cemex is more plausible if it includes compensation for lost sales. He added that PDVSA has already called him to ask if Holcim could help out with problems with Cemex operations. Beauchemin stated he fears the BRV will expect Holcim to clean up and modernize Cemex plants.

COMMENT

¶11. (C) Beauchemin's frustration with the BRV nationalization model was palpable as were his fears for the future of his staff, many of whom are long-time Holcim employees. Given Chavez' call for centralization of national cement operations, Holcim's management structure may be unrecognizable by early 2009. Based on Econoffs' discussions with Beauchemin, it appears that Cemex' claims of BRV discrimination in the negotiation process may have some merit. The BRV appears to have given Holcim many more opportunities to negotiate than they gave Cemex. Chavez' statement on August 21 that "the Mexicans have been disrespectful, have superiority complexes, are aggressive, defiant, and have not invested in technology" would suggest

there was a political element to the nationalization process. The Venezuelan Vice President's announcement that PDVSA will resume negotiations with Cemex on August 25 may represent a tacit acknowledgment of Cemex' unequal treatment claims. A more likely reason for the resumption of negotiations, however, is a BRV desire to avoid another lengthy international arbitration case by re-engaging with a more docile Cemex negotiating team.

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